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*Requested by [redacted] for Pres.
(22 hr deadline)*

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MEMORANDUM

SUBJECT: Portuguese Assessment

1. President Spinoia's resignation this morning was the culmination of a major test of political strength over the weekend that has been won by the left. Spinoia has been in a contest for power for several months with the Armed Forces Movement, a group of young left-leaning officers who engineered the overthrow of the Caetano regime last April.

2. Their differences were seldom made public, although it was clear that the Movement was impatient with the gradual pace of decolonization favored by Spinoia. The dispute also effected domestic problems with Spinoia generally adopting more moderate solutions than the Movement advocated.

3. The central issue, however, was authority. Spinoia, a career military officer who was accustomed to having his orders obeyed, could not tolerate having his decisions monitored by the Movement's Coordinating Committee. The Movement was equally determined to insure that its "program for the liberation of the Portuguese people" be followed to the letter.

4. The first crisis occurred in July. The original provisional government resigned and Spinoia was forced to accept a cabinet led by Colonel Vasco dos Santos Goncalves that was dominated by leftists. Goncalves is suspected by some of being a Marxist although the hard facts about his career reflect only the normal tours of duty in Africa. He appears to be a man of action rather than one who is attracted to intellectual concepts. At 53, Goncalves is one of the older members of the Movement.

5. There are still many uncertainties surrounding the composition of the Movement and what it stands for. It probably represents only a small percentage of the officer

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corps. It undoubtedly has within its ranks some communist party members, but young officers genuinely determined to liberalize Portugal and get out of Africa appear to form the bulk of it.

6. Perhaps the biggest lesson from the events of the weekend is the close coordination between the Movement and the Communist Party. Between them, their control of the situation was so complete that for all practical purposes the country was in their hands.

7. General Costa Gomes, a long time ally of Spínola, has been named as the new President. Costa Gomes can be classified in the same ideological terms as Spínola, but he probably is more patient about opposing points of view and therefore amenable to compromise. In any case, the presidency may be shorn of many of its powers and the occupant of the office is in danger of being a decorative figure.

8. Real power is in the hands of the Movement and its decisions will be administered by the provisional government headed by Premier Gonçalves. In his first statement since the crisis Gonçalves called for calm and reassured the Portuguese people that the armed forces was looking after their best interests. Gonçalves is fully aware of the dangers of the current situation and appealed to the people to avoid any action that might lead to a civil war.

9. The tone of his speech was Marxist. He urged the populace to be vigilant, for example, against the entrapments of reactionaries. He declared next Sunday a national work day in which the Portuguese people would rejoice in their victory over fascism by working in the fields and the factories. Elections were not mentioned, but the people were repeatedly told that they were unified with the armed forces.

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11. Meanwhile, the deteriorating economic situation may be the principal determinant of the course of events in Portugal. The country is shattered by a high rate of inflation, made worse by insistent demands by newly liberated workers for exorbitant wage increases. The return of soldiers from Africa and overseas workers from European countries whose economies also are in trouble has made a grim unemployment situation worse. Earnings from tourism, Portugal's number two foreign exchange earner, has plummeted. The uncertainty about the future course of the government has discouraged investment from abroad.

12. In the near term most of these problems can be successfully blamed on the mismanagement of the former regimes. A continued serious downturn will foment popular unrest, particularly if the Goncalves administration appears to be drifting away from the promise of free elections next spring.

Portugal As A NATO Ally

13. Under Spinoia, the provisional government consistently affirmed its intent to continue membership in NATO, its wish for close relations with the US, and its desire to bring about closer association between Portugal and the EEC. This general posture has been the policy, not only of Spinoia, but also of Costa Gomes and, with some qualification, of Socialist Foreign Minister Soares. It almost certainly reflects the convictions of most of the political elements of the right, center and moderate left, and the bulk of the officers of the armed forces.

14. The picture is not so clear with respect to some members of the MFA, including Goncalves. Some of Spinoia's conservative supporters have implied that Goncalves would take Portugal out of NATO, push the US out of the Azores, and adopt a neutralist course, with Soviet help.

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15. Although the Goncalves group almost certainly would not identify Portugal as closely with the US as would Spino-la, it is far from clear that these MFA leaders want to see Por-tugal adopt a neutralist posture. Certainly many of those labeled "communists" by Spino-la's more conservative supporters would probably fall in the center of the political spectrum in Europe north of the Pyrenees. At the same time, there is no doubt that some MFA members instinctively favor over-hauling Portuguese foreign policy, and probably wish to move away from close association with the US.

16. How far Portugal might go in this direction will depend on how the new leadership sorts itself out. If Costa Gomes emerges as an effective leader, there is little doubt that Portugal will remain in NATO and probably will be in-terested in concluding a deal with the US on the Lajes Base in the Azores. This would have the support of Foreign Minis-ter Soares. They would probably press for a more substantial quid pro quo than Spino-la would have, in order to make the argument more acceptable to their colleagues.* If Goncalves and the MFA achieve unchallenged power, the prospect for the base negotiations will be less promising.

17. Although we lack information on the ultimate in-tent of Goncalves and most other MFA leaders, it seems likely that most of them want to see Portugal's ties with other West European states strengthened. Portugal's economic interests and the professed admiration of most of them for European social democracy all argue for that course. Portu-gal's economic needs, which are urgent, make good relations with Western Europe almost imperative. Whatever they may feel about the US, these factors set limits on how far they would go in distancing themselves from the Alliance in gen-eral.

* In preliminary soundings, when Spino-la was still in office, it was indicated that the Portuguese price for the Lajes Base would include:

- rent payable on an annual basis;
- as yet unspecified military assistance, with the air force being the principal recipient;
- as yet undefined economic development assistance;
- assistance in development geothermal energy sources in the Azores; and
- PL-480 grains.

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18. Although a number of factors thus continue to work for Portugal remaining in the Alliance, its long-term stability and overall role are subject to great uncertainties. These will continue until the domestic power struggle is resolved.

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The USSR

20. The Soviet Union has heretofore played the Portuguese situation in low key, expressing cautious approval of the Provisional Government's aims at home and in Africa but apparently avoiding any active role. This seems likely to continue, at least until the Lisbon situation clarifies itself. As things stand, the Soviets probably consider the situation too uncontrolled and risky for them to undertake a sudden change of policy.